

095743

HUD #35

~~1-05-22~~

71-0056 21



# REPORT TO THE CONGRESS



LM095743

## Tighter Control Needed On Occupancy Of Federally Subsidized Housing

B-114860

Department of Housing and  
Urban Development

BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES

700492 095743

JAN. 20, 1971



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-114860

To the President of the Senate and the  
Speaker of the House of Representatives

This is our report on the need for tighter control on occupancy of federally subsidized housing provided under programs administered by the Department of Housing and Urban Development. Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Office of Management and Budget, and to the Secretary of Housing and Urban Development.

A handwritten signature in cursive script, reading "James B. Atto".

Comptroller General  
of the United States

D I G E S T

WHY THE REVIEW WAS MADE

Since 1961 the Department of Housing and Urban Development (HUD) has had a mortgage insurance program authorized by section 221 of the National Housing Act to provide multifamily housing for low- and moderate-income families. Under the program, the Government finances mortgage loans on cooperative and other rental housing projects at interest rates of as low as 3 percent.

In 1968 HUD was authorized by section 236 of the act to administer a multifamily housing mortgage insurance program for lower income families, under which HUD can pay all interest on privately financed mortgage loans in excess of 1 percent.

At the time that the General Accounting Office (GAO) began its review in the latter part of 1968, no section 236 projects were in operation. Therefore GAO's review was focused on the earlier section 221 program in areas served by HUD's Boston, Dallas, Detroit, and Fort Worth insuring offices, which had about one fourth of the projects. A determination, however, of the adequacy of HUD's policies and procedures for rating the eligibility of families for occupancy of housing under the section 221 program will have applicability to the section 236 program. HUD has established similar policies and procedures for that program.

FINDINGS AND CONCLUSIONS

Procedures and practices of HUD and project owners were not adequate to ensure that the federally subsidized housing was provided to families that were intended to be served by the section 221 program. (See p. 11.)

The records at 25 projects opened for occupancy during the 12 months ended June 1968 showed that project owners (1) did not obtain current income and employment information from families occupying about 20 percent of the 2,947 units and (2) did not verify, prior to occupancy, income and employment information reported by families occupying about 26 percent of the units.

Without current income information, as required by HUD procedures, the project owners had no assurance that those families had incomes within

Tear Sheet

JAN. 20, 1971

the limits prescribed by HUD for occupancy of the federally subsidized housing. (See p. 15.)

Some HUD insuring offices had not reviewed the practices of projects in enough depth to ascertain whether HUD's procedures for determining the eligibility of families for occupancy of housing units were being followed. HUD could not be sure that the projects were being operated in accordance with objectives of the program. (See p. 16.)

GAO's test of the incomes reported to the 25 projects by families occupying about one tenth of the housing units showed that 33 percent of the families may have had incomes that exceeded the prescribed limits. Income information provided by many of these families

- may not have included the incomes of all adult members and

- may not have been current, in the case of applicants for cooperative housing, because income information often was furnished considerably in advance of occupancy--sometimes nearly a year to comply with a HUD requirement that 90 percent of the cooperative membership be approved prior to construction of the project. (See p. 18.)

GAO also checked on whether some projects in operation several years were following HUD's procedures for determining whether tenants continued to be eligible for subsidized rents. GAO found that the projects had not verified, as required, updated income information received from families occupying about one third of the units that GAO selected for review. Without such verification, the projects had no assurance that the families continued to be eligible for subsidized rents. (See p. 15.) GAO tested the updated income reported by randomly selected families in three of the above projects. The test indicated that about half of the families may have had incomes which exceeded the incomes that they had reported. (See p. 20.)

The practices of 38 projects regarding the assignments of families to appropriate-sized units also were reviewed. About 20 percent of the units checked were assigned to families of less than the minimum number of persons appropriate under HUD criteria. (See p. 15.)

Of 2,500 families occupying units in 25 projects opened during the 12 months ended June 1968, more than 60 percent contributed less than 25 percent of their incomes for rent. One fifth of the families contributed less than 20 percent. (See p. 27.)

The Congress has determined a minimum contribution of 25 percent as appropriate for generally lower income families under other HUD programs, including the new section 236 program. (See p. 27.)

RECOMMENDATIONS OR SUGGESTIONS

HUD should:

- Strengthen its procedures to promote accurate reporting of income by families occupying federally subsidized projects. GAO suggests that each family adult should be required individually to certify the accuracy of income information. Also, families approved for membership in federally subsidized cooperative housing projects more than 60 days before occupancy should be required to provide updated income information prior to occupancy; and, if their incomes have increased above the applicable income limits, they should pay the prescribed rent surcharge. (See p. 24.)
- Provide for more effective surveillance by its field offices of the adherence of federally subsidized housing projects to HUD instructions for obtaining and verifying family income information and for assigning families to appropriate-sized units. (See p. 24.)
- Establish an appropriate percentage-of-income contribution as the minimum rent to be required for units in section 221 projects, the maximum rent being the equivalent market, or unsubsidized, rent for the housing. (See p. 31.)

With respect to GAO's recommendation that HUD establish an appropriate percentage-of-income contribution as the minimum rent to be required for section 221 projects, the Secretary of Housing and Urban Development has said that, although there have been ample opportunities since the enactment of the program in 1961, the Congress has chosen not to amend the legislation to establish such a percentage. (See p. 31.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Secretary of Housing and Urban Development stated that HUD was devoting much time and attention to the consideration of various income verification and compliance procedures. He said that GAO's findings and recommendations would be studied carefully. (See p. 24.)

The Secretary said that HUD already required full reporting of all family members' incomes and that requiring approved members of cooperatives to update their income information prior to occupancy would diminish their willingness to become members. GAO noted that, under the program reviewed, all adult family members were not required by HUD's procedures to certify to the accuracy of information reported on their incomes. GAO believes that its suggestion that cooperative members' income information be updated prior to occupancy is consistent with the objectives of federally subsidized housing programs. (See pp. 24 and 25.)

Tear Sheet

The Secretary said also that project managements would be issued strong reminders of their responsibilities in regard to occupancy requirements.

MATTERS FOR CONSIDERATION BY THE CONGRESS

The Congress may wish to consider whether HUD should establish an appropriate percentage-of-income contribution as the minimum rent to be required of families occupying housing units in section 221 projects, the maximum rent being the equivalent market, or unsubsidized, rent for the housing.

C o n t e n t s

	<u>Page</u>
DIGEST	1
CHAPTER	
1 INTRODUCTION	5
Section 221(d)(3) BMIR program	7
Section 236 program	9
2 IMPROVED PROCEDURES NEEDED FOR DETERMINING ELIGIBILITY OF FAMILIES FOR ASSISTANCE UNDER FEDERALLY SUBSIDIZED HOUSING PROGRAMS	11
Need for more effective HUD surveillance of operation of BMIR projects	12
Family income information not ob- tained or verified by projects	14
Families assigned to housing units larger than prescribed by HUD	15
Inadequate reviews of project opera- tions by HUD insuring offices	16
Procedures for obtaining family income information need strengthening	18
Test of incomes of families applying for occupancy of BMIR projects	18
Test of updated income reported by families after 2 years' occupancy	20
Conclusions	23
Recommendations to the Secretary of Housing and Urban Development	24
3 MINIMUM PERCENTAGE-OF-INCOME CONTRIBUTION SHOULD BE ESTABLISHED FOR OCCUPANCY OF BMIR HOUSING	27
Proposal, agency comments, and GAO eval- uation	31
Matter for consideration by the Congress	33
4 SCOPE OF REVIEW	34

APPENDIX

Page

I	Letter dated September 25, 1970, from the Secretary of Housing and Urban Development to the General Accounting Office	37
II	Principal officials of the Department of Housing and Urban Development responsible for the administration of activities discussed in this report	42

ABBREVIATIONS

BMIR	Below-market-interest-rate
GAO	General Accounting Office
GNMA	Government National Mortgage Association
HUD	Department of Housing and Urban Development
IRS	Internal Revenue Service

D I G E S T

WHY THE REVIEW WAS MADE

Since 1961 the Department of Housing and Urban Development (HUD) has had a mortgage insurance program authorized by section 221 of the National Housing Act to provide multifamily housing for low- and moderate-income families. Under the program, the Government finances mortgage loans on cooperative and other rental housing projects at interest rates of as low as 3 percent.

In 1968 HUD was authorized by section 236 of the act to administer a multifamily housing mortgage insurance program for lower income families, under which HUD can pay all interest on privately financed mortgage loans in excess of 1 percent.

At the time that the General Accounting Office (GAO) began its review in the latter part of 1968, no section 236 projects were in operation. Therefore GAO's review was focused on the earlier section 221 program in areas served by HUD's Boston, Dallas, Detroit, and Fort Worth insuring offices, which had about one fourth of the projects. A determination, however, of the adequacy of HUD's policies and procedures for rating the eligibility of families for occupancy of housing under the section 221 program will have applicability to the section 236 program. HUD has established similar policies and procedures for that program.

FINDINGS AND CONCLUSIONS

Procedures and practices of HUD and project owners were not adequate to ensure that the federally subsidized housing was provided to families that were intended to be served by the section 221 program. (See p. 11.)

The records at 25 projects opened for occupancy during the 12 months ended June 1968 showed that project owners (1) did not obtain current income and employment information from families occupying about 20 percent of the 2,947 units and (2) did not verify, prior to occupancy, income and employment information reported by families occupying about 26 percent of the units.

Without current income information, as required by HUD procedures, the project owners had no assurance that those families had incomes within

the limits prescribed by HUD for occupancy of the federally subsidized housing. (See p. 15.)

Some HUD insuring offices had not reviewed the practices of projects in enough depth to ascertain whether HUD's procedures for determining the eligibility of families for occupancy of housing units were being followed. HUD could not be sure that the projects were being operated in accordance with objectives of the program. (See p. 16.)

GAO's test of the incomes reported to the 25 projects by families occupying about one tenth of the housing units showed that 33 percent of the families may have had incomes that exceeded the prescribed limits. Income information provided by many of these families

- may not have included the incomes of all adult members and

- may not have been current, in the case of applicants for cooperative housing, because income information often was furnished considerably in advance of occupancy--sometimes nearly a year to comply with a HUD requirement that 90 percent of the cooperative membership be approved prior to construction of the project. (See p. 18.)

GAO also checked on whether some projects in operation several years were following HUD's procedures for determining whether tenants continued to be eligible for subsidized rents. GAO found that the projects had not verified, as required, updated income information received from families occupying about one third of the units that GAO selected for review. Without such verification, the projects had no assurance that the families continued to be eligible for subsidized rents. (See p. 15.) GAO tested the updated income reported by randomly selected families in three of the above projects. The test indicated that about half of the families may have had incomes which exceeded the incomes that they had reported. (See p. 20.)

The practices of 38 projects regarding the assignments of families to appropriate-sized units also were reviewed. About 20 percent of the units checked were assigned to families of less than the minimum number of persons appropriate under HUD criteria. (See p. 15.)

Of 2,500 families occupying units in 25 projects opened during the 12 months ended June 1968, more than 60 percent contributed less than 25 percent of their incomes for rent. One fifth of the families contributed less than 20 percent. (See p. 27.)

The Congress has determined a minimum contribution of 25 percent as appropriate for generally lower income families under other HUD programs, including the new section 236 program. (See p. 27.)

RECOMMENDATIONS OR SUGGESTIONS

HUD should:

- Strengthen its procedures to promote accurate reporting of income by families occupying federally subsidized projects. GAO suggests that each family adult should be required individually to certify the accuracy of income information. Also, families approved for membership in federally subsidized cooperative housing projects more than 60 days before occupancy should be required to provide updated income information prior to occupancy; and, if their incomes have increased above the applicable income limits, they should pay the prescribed rent surcharge. (See p. 24.)
- Provide for more effective surveillance by its field offices of the adherence of federally subsidized housing projects to HUD instructions for obtaining and verifying family income information and for assigning families to appropriate-sized units. (See p. 24.)
- Establish an appropriate percentage-of-income contribution as the minimum rent to be required for units in section 221 projects, the maximum rent being the equivalent market, or unsubsidized, rent for the housing. (See p. 31.)

With respect to GAO's recommendation that HUD establish an appropriate percentage-of-income contribution as the minimum rent to be required for section 221 projects, the Secretary of Housing and Urban Development has said that, although there have been ample opportunities since the enactment of the program in 1961, the Congress has chosen not to amend the legislation to establish such a percentage. (See p. 31.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Secretary of Housing and Urban Development stated that HUD was devoting much time and attention to the consideration of various income verification and compliance procedures. He said that GAO's findings and recommendations would be studied carefully. (See p. 24.)

The Secretary said that HUD already required full reporting of all family members' incomes and that requiring approved members of cooperatives to update their income information prior to occupancy would diminish their willingness to become members. GAO noted that, under the program reviewed, all adult family members were not required by HUD's procedures to certify to the accuracy of information reported on their incomes. GAO believes that its suggestion that cooperative members' income information be updated prior to occupancy is consistent with the objectives of federally subsidized housing programs. (See pp. 24 and 25.)

The Secretary said also that project managements would be issued strong reminders of their responsibilities in regard to occupancy requirements.

MATTERS FOR CONSIDERATION BY THE CONGRESS

The Congress may wish to consider whether HUD should establish an appropriate percentage-of-income contribution as the minimum rent to be required of families occupying housing units in section 221 projects, the maximum rent being the equivalent market, or unsubsidized, rent for the housing.

## CHAPTER 1

### INTRODUCTION

The General Accounting Office has examined into the adequacy of the Department of Housing and Urban Development's policies and procedures, and their implementation, for determining the eligibility of families for occupancy of federally subsidized multifamily housing provided under the below-market-interest-rate (BMIR) program authorized by section 221(d)(3) of the National Housing Act, as amended (12 U.S.C. 1715~~z~~). We directed our efforts toward this area because it appeared to warrant attention. We did not make an overall evaluation of HUD's management of the BMIR program. The scope of our examination is further described on page 34.

At June 30, 1970, HUD had insured mortgage loans totaling about \$1.6 billion made by the Government National Mortgage Association (GNMA) at interest rates of as low as 3 percent for financing 954 BMIR rental and cooperative housing projects containing about 114,000 units for families of low and moderate income. In addition, HUD had commitments to insure GNMA mortgage loans totaling about \$870 million for financing 450 BMIR housing projects containing about 53,000 units.

In 1968 section 236 of the National Housing Act, as amended (12 U.S.C. 1715 z-1), authorized HUD to administer a multifamily mortgage insurance program under which HUD would pay all interest in excess of 1 percent on mortgage loans made by private lenders to provide housing for families with incomes lower than the income limitations established for the BMIR program. The legislative history of this section of the act indicates that the Congress anticipated that the financial assistance would provide for housing at rents<sup>1</sup> within the range of families that could not afford to pay the rents for housing provided under the BMIR program. No

---

<sup>1</sup>Throughout the report, rents or rental rates refer both to the rents for rental housing projects and to carrying charges for cooperative housing projects.

section 236 housing projects were in operation at the time that we began our review of the BMIR program.

A determination of the adequacy of HUD's policies and procedures, and their implementation, for deciding upon the eligibility of families for occupancy of housing provided under the BMIR program will have applicability to the section 236 program, because HUD has established similar policies and procedures for that program.

Our examination was made at HUD's Boston, Dallas, Detroit, and Fort Worth insuring offices and at selected BMIR housing projects in the areas served by those offices. At June 30, 1970, of the 954 BMIR housing projects in operation, 235, or about 25 percent, were located in those areas.

## SECTION 221(d)(3) BMIR PROGRAM

The section 221(d)(3) multifamily mortgage insurance program was amended by section 101(a) of the Housing Act of 1961 (75 Stat. 149) to provide federally subsidized housing to low- and moderate-income families. The following statements, with respect to the purpose of the program, were contained in the reports of the banking and currency committees of both the Senate and the House of Representatives on the proposed 1961 housing legislation.

"There are many families whose incomes are sufficiently high so that they are not eligible for low-rent public housing but who cannot afford homeownership even if assisted by FHA insurance of no downpayment 40-year mortgage loans. This is particularly true of families living in central cities where high land costs make it impracticable to provide single-family homes. Many of these same families also cannot afford apartment-type housing even of modest design if it is financed at the going FHA interest rate and subject to the regular FHA insurance premium."

To provide housing at rental rates which would be lower than those available for privately owned housing, GNMA makes mortgage loans at below-market-interest rates for financing housing projects, and HUD waives the premium usually charged for insuring mortgage loans.

Initially the interest rates on BMIR mortgage loans could be as low as the average market yield on all outstanding marketable obligations of the United States as estimated by the Secretary of the Treasury. The Housing and Urban Development Act of 1965 amended section 221(d)(3) of the National Housing Act to provide that the BMIR mortgage loans bear interest rates of not less than 3 percent or the average yield on all outstanding marketable obligations of the United States. The BMIR mortgage loans approved for financing prior to the enactment of the Housing and Urban Development Act of 1965 bear interest at rates of 3-7/8, 3-3/8, or 3-1/8 percent. All BMIR mortgage loans approved for financing since 1965 bear interest at a rate of 3 percent.

GNMA estimated that it incurred interest expense of \$19 million and \$37 million in fiscal years 1969 and 1970, respectively, to finance the BMIR programs authorized by section 221 of the National Housing Act. Similarly, GNMA has estimated that it will incur interest expense of \$69 million and \$84 million on these programs in fiscal years 1971 and 1972, respectively. All but relatively minor amounts of these estimates pertain to the costs of borrowing required to finance the section 221(d)(3) BMIR program.

To ensure that the housing provided under the BMIR mortgage loan program would serve families of low and moderate income, HUD established, for each metropolitan area in which the program was to be operative, income limits, by size of family, for occupancy of units in BMIR housing projects. HUD's instructions to its insuring offices and to BMIR project owners defined family income as all gross income, before taxes and other deductions, received by all members of a family except dependent children.

For the metropolitan areas included in our review, the following income limits became effective in April 1967.

<u>City and State</u>	<u>Family size</u>				
	<u>1 per- son</u>	<u>2 per- sons</u>	<u>3 and 4 per- sons</u>	<u>5 and 6 per- sons</u>	<u>7 per- sons or more</u>
Boston, Mass.	\$5,750	\$6,950	\$8,200	\$9,450	\$10,650
Detroit, Mich.	5,750	6,950	8,200	9,450	10,650
Dallas, Texas	5,300	6,400	7,550	8,700	9,800
Fort Worth, Texas	4,600	5,550	6,550	7,550	8,500

The income limits for a locality were based on the lesser of HUD's estimate of the family income needed to pay the monthly rent for a housing unit in a typical BMIR housing project and the median family income published by the Census Bureau and adjusted by HUD, as necessary, to take into account more recent locality wage data.

BEST DOCUMENT AVAILABLE

## SECTION 236 PROGRAM

Section 201 of the Housing and Urban Development Act of 1968 amended the National Housing Act by adding section 236 which authorized HUD to administer a multifamily housing mortgage insurance program under which housing would be provided for occupancy by families having incomes that did not exceed 135 percent of the income limits established for low-rent public housing or 90 percent of the income limits established for the BMIR program.

Section 236 provides for the insurance of mortgage loans made by private lenders, rather than by GNMA as in the case of the BMIR program, for financing such housing projects and for HUD's payment on behalf of project owners of all interest in excess of 1 percent on the mortgage loans and of the mortgage insurance premiums. The legislative history of section 236 indicated that the Congress anticipated that the financial assistance authorized by this section would provide for housing at rents within the range of families that could not afford to pay the rents for housing provided under the BMIR program.

Section 236 provides for the establishment of a basic rent for a unit in a housing project on the basis of the project's mortgage bearing interest at the rate of 1 percent per annum. The section provides also for the payment by tenants of a monthly rent equivalent to 25 percent of their monthly income or the basic rent, whichever is greater; however, the rent assessed a tenant cannot exceed the rent which would be assessed if the project received no financial assistance from HUD. Section 236 requires project owners to pay HUD all rentals collected in excess of the basic rentals.

As of June 30, 1970, HUD had insured mortgage loans totaling about \$78 million for 43 projects containing about 5,000 housing units under the section 236 program and had contracted to pay all interest on these loans in excess of 1 percent per annum. In addition, HUD had commitments to insure and make interest payments on mortgage loans totaling about \$1.3 billion for 760 projects containing about 88,000 housing units under the section 236 program.

A list of the principal officials of HUD responsible for the administration of activities discussed in this report is included as appendix II.

## CHAPTER 2

### IMPROVED PROCEDURES NEEDED FOR

#### DETERMINING ELIGIBILITY OF FAMILIES FOR ASSISTANCE

##### UNDER FEDERALLY SUBSIDIZED HOUSING PROGRAMS

HUD's procedures and those of owners of BMIR housing projects included in our review were not adequate to ensure that the housing was provided to families who were eligible to occupy it in accordance with the criteria that HUD had established to accomplish the objectives of the program. Project owners frequently did not comply with HUD requirements for obtaining and verifying family income information and often assigned families larger units than appropriate under HUD criteria. Some HUD insuring offices had not reviewed project owner practices in enough depth to ascertain whether HUD's procedures were being followed.

Our tests of incomes reported to owners of BMIR housing projects by a randomly selected number of families occupying units in projects that were opened for occupancy during the 12 months ended June 1968 indicated that about one third of the families selected may have had incomes that exceeded the BMIR limits. A limited test of the incomes of families who had occupied units for 2 years and had provided updated income information to reestablish their eligibility for subsidized rents indicated that over half of the families may not have accurately reported their incomes.

We believe that HUD needs to strengthen its procedures and to develop additional measures to promote accurate reporting of incomes by families seeking to occupy or continue to occupy units in BMIR federally subsidized housing projects.

We believe also that HUD needs to provide more surveillance of the practices of BMIR projects to ensure that the housing is provided only to those families that the Congress intended to benefit from the subsidized program.

NEED FOR MORE EFFECTIVE HUD SURVEILLANCE  
OF OPERATION OF BMIR PROJECTS

Under HUD's procedures, a family is eligible for occupancy of BMIR housing if its income is within certain limits. The income limits published by HUD for the metropolitan areas included in our review and a discussion of the manner in which they were derived are included in chapter 1 of this report.

HUD procedures require that, within 60 days prior to occupancy, applicants for occupancy of units in BMIR housing projects provide the project owners with information on places of employment and on income during the preceding 12 months to establish their eligibility for occupancy under the applicable income limits. The procedures require (1) the head of the family to certify that he has included all family income and (2) the project owner to verify the family members' income information by obtaining written statements of earnings from their employers.

Also, HUD's procedures require (1) families who occupy units in BMIR housing projects to provide updated income information to the project owners every 2 years to reestablish their eligibility for subsidized rents and (2) the project owners to obtain employer verification of the updated income reported by members of the families. The procedures provide that, if a tenant family's income has increased above the applicable income limit (plus an allowable excess of 5 percent) for occupancy of a BMIR housing unit, the family can continue to occupy the housing unit provided it agrees to pay a rent surcharge.

HUD instructions state that the rent surcharge should be the lesser of 20 percent of the rent of the unit occupied or 25 percent of the amount by which the family's income is in excess of the applicable limit. HUD officials informed us that the 20-percent surcharge represented HUD's assessment of the average difference between rents of privately financed rental projects and those of BMIR projects. The surcharges collected are required to be deposited with GNMA for use at the discretion of HUD.

HUD instructions to BMIR project owners also require that eligible families be assigned appropriate-sized units on the basis of the number of persons in the households and their relationship and sex, in accordance with the following criteria.

<u>Number of bedrooms</u>	<u>Number of persons</u>	
	<u>Minimum</u>	<u>Maximum</u>
Efficiency	1	2
1	1	2
2	2	4
3	4	6
4	6	8

Under these criteria, a project owner could assign a one-bedroom unit to an individual if an efficiency (no-bedroom unit) were not available or if there were no efficiency units in the project. Also, a two-person family could occupy a two-bedroom unit if their ages differed widely (e.g., grandparent and grandchild), if they were of the opposite sex (e.g., mother and son), or if the health of one of the persons made separate bedrooms desirable.

HUD has established similar procedures for determining family eligibility on the basis of income and for assigning families to housing units provided under the program for lower income families authorized by section 236 of the National Housing Act. At the time that we began our review, however, no projects were in operation under this program.

HUD procedures also required that its insuring offices make reviews of the operation of BMIR projects in sufficient depth to determine if HUD's occupancy requirements relating to family income and assignment of housing units were met by project owners both initially and on a continuing basis. The initial review by insuring offices is required to be made within 3 months after a project has opened for occupancy. Thereafter, insuring offices are required to make follow-up reviews every 2 years.

From the 116 BMIR projects in operation at June 30, 1968, in the areas served by HUD's Boston, Dallas, Detroit,

and Fort Worth insuring offices, we selected for review 38 projects containing 5,825 housing units--2,947 units in 25 projects which became available for occupancy during the 12 months ended June 1968 and 2,878 units that became available for occupancy in prior periods.

Family income information not obtained  
or verified by projects

Records at the 25 projects containing the 2,947 housing units that became available for occupancy during the 12 months ended June 1968 showed that project owners did not obtain current income information from families occupying 594 (20 percent) of the 2,947 units within 60 days prior to their occupancy of the units, contrary to HUD procedures. Of the 594 families, 441 provided the information more than 60 days prior to occupancy, 132 provided it after they had moved in, and 21 did not provide the information.

We also noted that BMIR project owners had not verified the income and employment information provided by 330 families prior to their occupancy of the units. Also, the information provided by another 450 families either before or after their occupancy was not verified.

Of the families that occupied the 25 projects, 141 were ineligible for occupancy of housing units on the basis of the income information that they had supplied or that the project owners had obtained from the family members' employers. The project records and our discussions with project personnel showed that, for a large proportion of these families, the projects (1) did not properly convert the reported hourly, weekly, or monthly earnings to an annual income basis for comparison with the prescribed income limits or (2) did not receive the income data until after the families had been permitted to occupy the units.

Generally, project personnel indicated to us that they were unaware that families having incomes in excess of the prescribed limits were occupying units in the projects. We believe that, in these cases and in any other similar ones that may become known, appropriate rental surcharges should be assessed and collected.

We also selected six additional BMIR housing projects that had been in operation several years and examined into the project owners' practices for verifying updated income information provided by tenants to reestablish their eligibility for subsidized rents. Our examination of project records relating to income information supplied by 99 families showed that the project owners had not verified with the family members' employers the information provided by 35 families.

Without current income information and/or verification of it as required by HUD procedures, the BMIR project owners had no assurance that families which were admitted to occupancy of units or which continued to occupy the units were entitled to the benefits of federally subsidized housing.

Families assigned to housing units  
larger than prescribed by HUD

Our review of the practices of owners of BMIR housing projects with respect to the assignment of families to appropriate-sized units on the basis of HUD's criteria (see p. 13) showed that, of 3,731 units selected from 38 projects, about 20 percent had been assigned to families of less than the prescribed minimum number of persons. These units could have accommodated from 900 to 1,650 additional persons if proper assignments had been made. We noted that at some of the projects larger families were waiting for units of the size that were occupied by less than the minimum number of persons prescribed by the HUD criteria.

In addition to permitting the exceptions to its general assignment criteria set forth on page 13, HUD permitted a large housing management organization, which managed 14 cooperative projects included in our review, to assign units larger than those prescribed by its general criteria to families that expected to increase in size or that had children above the fourth-grade school level. Our projection of the additional persons who could have been accommodated in the 38 projects was based entirely on HUD's criteria. When our review of projects records indicated that larger units were assigned to families for any reasons permitted by HUD, we did not consider such units as being inappropriately assigned.

In several of the 38 BMIR projects, a particularly large number of units were not properly assigned. For example, of 253 units in one rental project, 132 were occupied by less than the appropriate minimum number of persons. According to a project official, this was partly due to a misinterpretation of HUD's criteria for occupancy of two-bedroom units; however, he also indicated that the project preferred to rent units to smaller families because their rental delinquencies were less and the repair costs of their units were lower than those of larger families. At this project, the waiting list for housing units included several large-sized families.

At several other projects, units were assigned substantially in accordance with the HUD criteria. For example, of 146 units in one rental project, none of the units were assigned to fewer persons than prescribed by the HUD criteria, and it appeared to us that this was a result of a conscientious effort by the project to follow the criteria.

BMIR project personnel and HUD insuring office officials with whom we discussed the assignment of housing units indicated that, although they were in agreement with the objectives of the HUD occupancy criteria, priority generally was given to achieving full occupancy of BMIR projects as soon as possible and to maintaining it. We therefore believe that there may have been a tendency at some projects to assign housing units on a first-come-first-served basis, without adequate regard to HUD's occupancy criteria. Closer adherence by BMIR project owners to HUD's criteria could result in additional numbers of people benefiting from this federally subsidized housing.

Inadequate reviews of project operations  
by HUD insuring offices

Some HUD insuring offices had not made reviews of the practices of owners of BMIR housing projects in enough depth to ascertain whether HUD's procedures for determining the eligibility of families for occupancy of the units were being followed. For example, one insuring office had no records evidencing that any reviews had been made in connection with eight BMIR projects containing 1,516 units that became

available for occupancy during the 12 months ended June 1968. We were informed by the insuring office officials that, although reviews of BMIR projects had not been documented for the last several years, reviews had been made of the above eight projects and no deficiencies had been found.

Our review of the records at the eight projects showed, however, that of the 1,516 units, 444 had been occupied by families who did not report, or certify the accuracy of, their incomes within 60 days prior to occupancy and that 628 units had been occupied by families whose reported incomes had not been verified, contrary to HUD's procedures. Also, about 27 percent of the units in these projects were not assigned to families in accordance with HUD's minimum occupancy criteria.

Officials of another insuring office informed us that they had not been able to make the required reviews of BMIR project owners' adherence to HUD procedures because of insufficient personnel. Seven BMIR cooperative projects located in the area served by this insuring office were occupied during the 12 months ended June 1968. Our review of the records of these projects showed that income information provided by 151 of 693 families who occupied the housing units had not been verified with their employers. Also, about 35 percent of the units in these projects were not assigned to families in accordance with HUD's minimum occupancy criteria.

Over the last few years, HUD's Office of Audit has examined the records of a large number of BMIR projects located throughout the nation. The HUD auditors have found significant noncompliance by BMIR project owners with HUD's procedures for obtaining and verifying family income information and for assigning housing units, and the results of their reviews have been referred to the HUD insuring offices for corrective action by project owners. We believe that their findings support our conclusion that there is a need for HUD insuring offices to provide more effective surveillance of the adherence of BMIR projects to HUD's procedures.

Without effective surveillance it appears to us that HUD has no assurance that its procedures are being followed or that the BMIR projects are being operated in accordance with program objectives.

PROCEDURES FOR OBTAINING FAMILY  
INCOME INFORMATION NEED STRENGTHENING

To further evaluate the effectiveness of HUD's procedures for determining the eligibility of families to receive the benefits of federally subsidized BMIR housing, we tested the accuracy of income reported by randomly selected families to the owners of BMIR projects. For our test, we obtained from the Internal Revenue Service (IRS) the calendar year 1967 Federal income tax returns filed by members of the families and compared the incomes which they reported to IRS with the incomes which they reported during the period July 1967 to October 1968, in applying for occupancy or continuation of occupancy of units in BMIR projects. We used the 1967 tax returns because we believed that the income data contained in these returns would approximate the annual incomes of the families at the time that they submitted income information to the BMIR housing projects.

Test of incomes of families applying  
for occupancy of BMIR projects

For our test, we randomly selected 500 of the 2,947 units in the 25 projects which became available for occupancy during the 12 months ended June 1968. (See p. 14.) We subsequently eliminated 133 of the 500 units from our test because we did not have sufficient information to identify, without disproportionate effort, the returns filed by the occupants of these units.

The results of our test for the remaining 367 units are shown below.

Type of project and location	Number of projects	Total units in projects	Number of units sampled	Family income exceeded limits	
				Number	Percent
Rental:					
Boston	7	1,202	143	42	29.4
Dallas	4	589	70	22	31.4
Fort Worth	1	149	15	4	26.7
Cooperative:					
Boston	1	314	39	8	20.5
Detroit	12	693	100	44	44.0
Total	25	2,947	367	120	32.7 <sup>a</sup>

<sup>a</sup>We recognize that this percentage may not have been typical of the 133 units eliminated from our selected sample of 500 units. (See preceding page.) If it is assumed that all the families who occupied these 133 units had incomes within the BMIR limits, the 120 families whose incomes, as shown by our test, may have exceeded the limits represented 24 percent of the sample of 500 units.

As shown above, about 33 percent of the families included in our test may have had incomes which exceeded the applicable BMIR limits. An analysis of the amount by which the income of these families exceeded the BMIR income limits follows.

Amount by which income shown by test was in excess of <u>BMIR limits</u>	Number of <u>families</u>	<u>Percent</u>
Up to \$500	27	22
\$501 to \$1,000	25	21
\$1,001 to \$3,000	42	35
\$3,001 to \$5,000	16	13
Over \$5,000	<u>10</u>	<u>9</u>
Total	<u>120</u>	<u>100</u>

Of the above families, 16 were among the 141 families that had reported incomes in excess of the allowable family income limits for occupancy of units in the projects. (See p. 14.) The remaining 104 families had reported incomes which were within the allowable family income limits for occupancy of units but which were less than their incomes as indicated by our test.

Of the 104 families, 56 reported that only one adult was employed; however, our test indicated that more than one adult member of the family had substantial employment. For most of the 56 families, the unreported incomes were those of female spouses. Our test indicated that, of the 56 families, 29 had annual incomes that were at least 50 percent higher than they had reported, including eight families that had incomes twice as great as reported.

For most of the remaining 48 of the 104 families, the differences between their incomes as indicated by our test and those reported were principally understatements in the amount of the husband's earnings.

As shown on page 18, our test indicated that a larger percentage of the families living in cooperative housing projects in the Detroit, Michigan, area (44 percent) had

incomes in excess of the prescribed income limits than did families living in units in rental projects (27 to 31 percent). The families living in these cooperative projects often furnished income information considerably in advance of occupancy--sometimes nearly a year--because HUD procedures provided that at least 90 percent of the cooperative membership be approved by HUD prior to the insurance of mortgage loans to finance project construction.

In March 1968 HUD advised the management of the cooperative projects in Detroit that it was not necessary for the families approved for membership in the cooperative to update their income information before occupancy of the units, although their incomes may have increased subsequent to the approval and prior to occupancy. We believe that this was a contributing factor to the high percentage of these cooperative members indicated by our test to have had annual incomes in excess of the limits prescribed for occupancy of units in BMIR housing projects.

Test of updated income reported by families after 2 years' occupancy

To test the effectiveness of HUD's procedures for determining the eligibility of families to continue receiving the benefits of subsidized rents after they had occupied BMIR units for 2 years, we randomly selected for review 63 units from three projects located in the Boston, Dallas, and Detroit areas, which were occupied by families that had provided the project owners with updated income information during the period January to October 1968. Our review showed that, of the families that occupied the 63 units, 42 had reported incomes which did not exceed the BMIR limits for continued occupancy without surcharge (105 percent of admission limits) and that 21 had reported incomes which exceeded these limits and caused them to pay the rent surcharges for continued occupancy.

Of these 21 families, our test of family incomes indicated that 13 may not have reported their full incomes, as shown below.

<u>Amount by which income shown by test was in excess of amount reported to project</u>	<u>Number of families</u>
Up to \$500	6
\$501 to \$1,000	3
\$1,001 to \$2,000	3
Over \$2,000	<u>1</u>
Total	<u>13</u>

The project records indicated that the 13 families had been assessed rent surcharges on the basis of the information that they had reported to the projects. For five of the families, the surcharges assessed were the maximum applicable to the units occupied. Therefore the fact that the reported family incomes were understated would not have affected the amount of the rent surcharges. For the remaining eight families, the surcharges assessed were less than the maximums applicable to the units occupied and, on the basis of our test, should have been higher.

Of the 42 families that reported incomes not exceeding the BMIR limits, our test of family incomes indicated that 21 families may have had annual incomes which exceeded the BMIR limits and which would have required them to pay rent surcharges for continued occupancy. For many of these 21 families, there was more than one adult wage earner, whereas information reported to the projects by the head of the family showed only one employed adult. Our test showed that the incomes of the 21 families were in excess of applicable income limits for continued occupancy, as follows:

<u>Amount by which income shown by test was in excess of BMIR limits</u>	<u>Number of families</u>
Up to \$500	4
\$501 to \$1,000	1
\$1,001 to \$3,000	10
\$3,001 to \$5,000	3
Over \$5,000	<u>3</u>
Total	<u>21</u>

In summary, our test of the updated incomes reported to the projects by the 63 families indicated that 34 families may not have accurately reported their incomes and that, of these, 29 should have been required to pay additional rent surcharges ranging from \$2.50 to \$29 a month.

**BEST DOCUMENT AVAILABLE**

## CONCLUSIONS

Our review of the administration of the occupancy requirements of the BMIR program showed that the procedures and practices of HUD and of the projects owners were not adequate to ensure that federally subsidized housing was provided to families that were eligible under the criteria established by HUD to accomplish the program objectives.

Our tests of incomes of families that occupied BMIR housing projects indicated that many may not have included the earnings of all adult members in the family incomes reported to the projects. We therefore believe that each family adult should be required to certify the accuracy of information reported on his or her income.

Also, because of the significant time lapse which sometimes occurred between the dates that families applied for membership in a federally subsidized cooperative project and the dates that they actually occupied housing units, we believe that the families approved for membership in cooperatives should be required to update their income information immediately prior to occupancy and, if their incomes have increased above the applicable income limits, to pay additional carrying charges in accordance with HUD's procedures (see p. 12).

Our review of the practices of BMIR project owners in adhering to HUD's procedures for obtaining and verifying family income information and for assigning families to appropriate-sized housing units showed that they frequently had not followed the procedures and that HUD insuring offices had not provided enough surveillance to ascertain whether the procedures were being followed.

We believe that HUD needs to strengthen its procedures and to develop additional measures to promote accurate reporting of income by families occupying federally subsidized projects. In addition, HUD needs to provide more surveillance of the practices of owners of federally subsidized projects to ensure that the housing is being used in accordance with the criteria established by HUD to accomplish the objectives of the programs and the intent of the Congress.

RECOMMENDATIONS TO THE SECRETARY  
OF HOUSING AND URBAN DEVELOPMENT

We recommend that HUD reevaluate its procedures for the reporting of income by families seeking to occupy or to continue occupying federally subsidized housing and develop ways to strengthen the procedures and promote more accurate reporting. We suggest that the procedures require each family adult to certify the accuracy of the income information reported to project owners. We suggest also that families approved for membership in federally subsidized cooperative housing projects more than 60 days before occupancy be required to update their income information prior to occupancy and, if their incomes have increased above the applicable income limits, to pay additional carrying charges in accordance with HUD's procedures.

We recommend also that HUD provide for more effective surveillance by its insuring offices of the practices of owners of federally subsidized projects with respect to their adherence to HUD's occupancy requirements.

- - - -

In a letter to us, dated September 25, 1970 (see app. I), the Secretary of Housing and Urban Development commented on our findings and the above recommendations.

With respect to our recommendation that HUD reevaluate its procedures regarding the reporting of family income, the Secretary said that HUD was devoting much time and attention to the consideration of various income verification and compliance procedures that may be conducive to higher production of housing under federally subsidized programs while also giving greater assurance that the housing will be available to occupants at the income level intended by the Congress. The Secretary stated that our findings and recommendations have been, and will continue to be, studied carefully as these efforts continue.

In commenting on our suggestion that each adult family member be required to provide owners of BMIR projects with information on his or her income and employment, the

Secretary pointed out that HUD's income certification forms required full reporting of all family income.

We recognize that, under both the BMIR program and the section 236 housing program, HUD's procedures require families to furnish information on total family income. However, under the BMIR program, only the head of the family is required to certify the accuracy of such information; whereas under the section 236 program, both the husband and wife are required to certify. We believe that certification of both spouses should also be required of families who in the future wish to occupy or continue to occupy BMIR projects. Under both programs, we believe also that the income certification forms and instructions should provide for each family adult to certify to the accuracy of the income information reported to project owners.

Regarding our suggestion that families approved for membership in federally subsidized cooperative housing projects be required to provide updated information immediately prior to occupancy and that the carrying charges be adjusted as appropriate, the Secretary stated that it would be very difficult to establish viable cooperatives if their memberships were subject to such a requirement. He stated that, because of HUD's 90-percent presale requirement before construction, the only practical time to obtain income data on which original membership is based is prior to the start of construction. He also said that the imposition of another income check at the time of occupancy would add an unknown for prospective members and would diminish their willingness to become members.

We believe that our suggestion is consistent with the objectives of the federally subsidized housing programs discussed in this report. In our opinion permitting cooperative members to receive federally subsidized housing assistance on the basis of income information that is not current does not seem (1) fair to families admitted to the rental projects--where they must qualify for assistance on the basis of income information provided no more than 60 days before occupancy--or (2) equitable to the Government.

We therefore believe that cooperative members whose membership is approved more than 60 days before occupancy

should be required to update their income information prior to occupancy and, if their incomes have increased above the BMIR limits to pay additional carrying charges in accordance with HUD's procedures.

With respect to our recommendation that HUD provide more effective surveillance of the adherence of owners of BMIR projects to HUD instructions for obtaining and verifying family income and for assigning families to appropriate-sized units in federally subsidized housing projects, the Secretary stated that HUD will issue strong reminders to project owners of their responsibilities to adhere to occupancy requirements. Also, he indicated that, along with major organizational changes now being made in its field structure, HUD expects that improved training and supervision of its field personnel will provide assurance of more effective administration of the BMIR subsidy programs.

The organizational changes and improvements in training and supervision of field personnel cited by the Secretary may result in more effective surveillance of project practices; however, we believe that HUD should make a timely evaluation of these actions to ascertain whether they have resulted in the needed improvements in the administration of the occupancy requirements of federally subsidized programs.

## CHAPTER 3

### MINIMUM PERCENTAGE-OF-INCOME

### CONTRIBUTION SHOULD BE ESTABLISHED

### FOR OCCUPANCY OF BMIR HOUSING

HUD has not established any minimum percentage of income that a family should contribute for occupancy of the federally subsidized housing provided under the BMIR program. Other housing programs more recently enacted by the Congress require such minimum contribution. The minimum contribution required under the rental housing assistance program, authorized by section 236 of the National Housing Act, as amended, and under the rent supplement program, authorized by the Housing and Urban Development Act of 1965, both of which are generally directed toward families of lower income than those of the BMIR program, is 25 percent of family income.

Our review showed that more than 60 percent of about 2,500 families residing in 25 BMIR housing projects contributed less than 25 percent of their incomes for occupancy of the housing. One fifth of the 2,500 families contributed less than 20 percent. Our analysis was based on the incomes reported by the families in applying for occupancy of BMIR units and did not include the results of our test of the accuracy of the income information reported.

We believe that it is inequitable for HUD to provide BMIR subsidized housing to families without requiring a minimum percentage-of-income contribution by the families when the Congress has deemed a minimum contribution appropriate for assistance under programs for generally lower income families. We believe that an appropriate percentage-of-income contribution should be established for families who occupy housing provided under the BMIR program. Under the section 236 program, the maximum rent that a family would pay for a housing unit under a percentage-of-income procedure would be the rent that would be charged if the housing unit were not subsidized by the Government.

Under the BMIR housing program, HUD establishes a monthly rent for each housing unit, which is computed on the basis of the unit's prorated share of the project's monthly operating costs, including repayment of the GNMA mortgage loan and payment of interest on the mortgage loan at a rate ranging from 3 to 3-7/8 percent. Families that have incomes within the limits established for the BMIR program pay the subsidized rent for the units that they occupy.

To receive the benefits of federally subsidized housing under the program authorized by section 236 of the National Housing Act, families generally must have annual incomes (after certain allowed adjustments) which do not exceed 135 percent of the income limits established for low-rent public housing or 90 percent of the income limits established for BMIR housing projects in the area.

In determining whether a family is eligible for assistance under the section 236 program, HUD permits a \$300 deduction for each child from the family's gross income. Excluded is all family income which is unusual or temporary, such as overtime pay which will be discontinued or unemployment compensation which does not occur regularly. Such adjustments are not permitted by HUD under the BMIR program.

Under the section 236 program, a basic monthly rent for housing units is established on the basis of each housing unit's prorated share of a project's operating costs, including repayment of the mortgage loan and payment of interest on the mortgage loan computed at a rate of 1 percent. All interest costs in excess of 1 percent on the mortgage loan and HUD mortgage insurance premiums are paid by HUD.

Families that occupy section 236 housing units and have adjusted annual incomes which qualify them for assistance are required to pay the basic rent for the units or 25 percent of their monthly incomes, whichever is greater; however, the rent paid by a family cannot exceed that which would be charged if the unit were not subsidized by HUD. Rents collected by the project in excess of the basic rents are required to be paid to HUD for deposit in a revolving fund for the purpose of making other subsidy payments.

Families that receive assistance under the rent supplement program, authorized by the Housing and Urban Development Act of 1965, also are required to contribute 25 percent of their incomes toward rent. To be eligible for rent supplement assistance, families must have incomes which do not exceed the income limits established for low-rent public housing in their areas.

Because HUD has not established a minimum percentage-of-income contribution for the BMIR program, we believe that housing assistance has been provided to families occupying BMIR units on a more liberal basis than the Congress deemed appropriate under the section 236 and rent supplement programs, although those families could have incomes higher than families that are eligible for housing assistance under the section 236 and rent supplement programs.

On the basis of the incomes reported by 2,539 families that initially occupied units in 25 BMIR housing projects located in the areas served by HUD's Boston, Dallas, Detroit, and Fort Worth insuring offices, we determined that over 60 percent of the families had contributed less than 25 percent of their incomes for rent of the units and that about one fifth of the 2,539 families had contributed less than 20 percent.

The percentages of family incomes used for payment of rent in the 25 projects were as follows:

Lo- cality	Proj- ects re- viewed	Total units	Percent of family income paid for rent of BMIR units					
			Less than 20%		20--24%		25% or over	
			Units	Per- cent	Units	Per- cent	Units	Per- cent
Boston	8	1,001	197	19.7	417	41.6	387	38.7
Dallas	4	583	46	8.0	223	37.8	314	53.8
Detroit	12	811	283	34.9	375	46.2	153	18.9
Fort Worth	<u>1</u>	<u>144</u>	<u>27</u>	<u>18.7</u>	<u>48</u>	<u>33.3</u>	<u>69</u>	<u>47.9</u>
Total	<u>25</u>	<u>2,539</u>	<u>553</u>	<u>21.8</u>	<u>1,063</u>	<u>41.8</u>	<u>923</u>	<u>36.4</u>

HUD's current procedures require that, when the income of a family occupying a unit in a BMIR housing project is determined to be in excess of the established limits, a surcharge is to be assessed; the surcharge is to be deposited by the owner of the project with GNMA, the mortgagee that financed the project by making a mortgage loan at a lower-than-market-interest rate. As stated on page 12, the maximum surcharge for a BMIR unit is 20 percent of the rent for the unit occupied. Additional rents resulting from a requirement that families contribute a minimum percentage of income for occupancy of BMIR housing would be equivalent to rent surcharges and therefore could be handled in accordance with HUD's procedures pertaining to surcharges.

## PROPOSAL, AGENCY COMMENTS, AND GAO EVALUATION

In a draft of this report, we stated that we believed it was inequitable for HUD to continue to provide BMIR subsidized housing to families without requiring a minimum percentage-of-income contribution from the families when the Congress had deemed a minimum contribution appropriate for assistance under other HUD-sponsored housing programs.

Senate bill 3639 and House bill 16643, which were introduced in the Congress in March 1970, would have provided for the establishment of a uniform basis for determining the amount of housing assistance provided to families. One of the provisions of this legislation would have required that each family pay 20 percent of the first \$3,500 of income and 25 percent of all income in excess of that amount towards rent. The legislation also provided that existing rents assessed residents of BMIR projects were to be adjusted over a period of 2 years in accordance with the proposed criteria.

We proposed to HUD that, in the event that the provisions of the legislation which would have required families to contribute a minimum percentage of their incomes toward the rent of federally subsidized housing were not enacted into law during the second session of the 91st Congress, an appropriate percentage-of-income contribution be established for families who reside in BMIR housing projects. Subsequent to our proposal, the Congress discontinued consideration of Senate bill 3639 and House bill 16643 because of insufficient time remaining in the legislative session to consider in depth the various provisions of the bills.

In commenting on our proposal, the Secretary said that, although there have been ample opportunities since the enactment of the BMIR program in 1961, Congress had chosen not to amend the legislation to include such a requirement. He further stated that, since the BMIR program was being phased out, our proposal would have impact primarily on existing projects and that these already were subject to the requirement that over-income families pay market rents if they wish to remain as occupants.

The BMIR rent-family income analysis shown on page 29 was based on the incomes reported by families in applying for occupancy of BMIR units and showed that families with incomes within the BMIR limits could occupy the units with a lesser percentage-of-income contribution than the 25 percent required under the section 236 and rent supplement programs.

We recognize that HUD has established procedures that require that tenants of BMIR housing projects pay additional rent when their incomes increase above the BMIR limits and that, under HUD procedures, they would pay rents equal to HUD's estimate of the market rents of the units they occupy if their incomes are sufficiently in excess of the limits. As discussed on page 20, our review of the updated income information furnished to projects by 63 families to re-establish their eligibility for subsidized rents showed that 21 of the 63 reported incomes which required that they pay rent surcharges. Of these 21 families, only nine reported enough income to require that they pay the maximum surcharge or market rent referred to by the Secretary. Of the 54 families, that were not required to pay maximum surcharges for units, 49 contributed less than 25 percent of their reported incomes--or an average of 17.5 percent.

With respect to the Secretary's comment that the BMIR program was being phased out and that our proposal would have impact primarily on existing projects, it should be pointed out that, as of June 30, 1970, there were 450 BMIR housing projects still under construction or for which HUD had made mortgage insurance commitments. Also, after all BMIR project construction is completed, it appears to us that it would be reasonable to presume that the occupancy of BMIR projects would not remain static but might experience considerable tenant turnover during the 40-year life of BMIR mortgage loans.

Therefore although the BMIR program is being phased out as an active HUD program from the standpoint of making additional mortgage insurance commitments, we believe that, unless the rent for a BMIR unit is based on a percentage of income--the maximum rent being HUD's determination of market rent--the BMIR program will continue to provide

housing on a more liberal basis than federally subsidized housing programs more recently enacted by the Congress.

MATTER FOR CONSIDERATION BY THE CONGRESS

The Congress may wish to consider whether HUD should establish an appropriate percentage-of-income contribution as the minimum rent to be required of families who occupy the federally subsidized housing provided by the section 221(d)(3) program, the maximum rent being the equivalent market, or unsubsidized, rent for the housing.

## CHAPTER 4

### SCOPE OF REVIEW

Our examination included a review of the pertinent legislation authorizing the BMIR multifamily housing mortgage insurance program, the related policies and procedures established by HUD for determining the eligibility of families to reside in assisted housing, and the practices of BMIR project owners and HUD insuring offices responsible for the administration of the program.

We reviewed pertinent records of HUD insuring offices and BMIR projects relating to the assignment of housing units and to the verification of income data submitted by project residents, and we tested the adequacy of HUD's procedures for obtaining and verifying income by comparing income data submitted to BMIR projects by a randomly selected number of residents to the income that they reported to the IRS. We also discussed the administration of the program with officials of HUD and managers of BMIR projects.

Our review was performed principally at HUD headquarters in Washington, D.C.; at HUD's insuring offices in Boston, Massachusetts; Detroit, Michigan; Dallas and Fort Worth, Texas; at selected BMIR housing projects located in the areas served by these insuring offices; and at the IRS centers located in Andover, Massachusetts; Covington, Kentucky; and Austin, Texas.

**APPENDIXES**

Faint, illegible text or markings on the left side of the page, possibly bleed-through from the reverse side.



THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, D. C. 20410

SEP 25 1970

Mr. Max Hirschhorn  
Associate Director  
Civil Division  
United States General  
Accounting Office  
Washington, D. C. 20548

Dear Mr. Hirschhorn:

This is in response to your request of June 9 for our comments upon your draft of a proposed report to the Congress on the administration of our interest-subsidy multifamily housing operations.

While the program actually studied was mainly the below-market-interest-rate program under Section 221(d)(3) of the National Housing Act, as amended, you are correct in assuming that some of the same problems would arise in the newer interest-subsidy program under Section 236. We are very much aware of these problems--particularly those having to do with income and related conditions of tenant eligibility--and are grateful for the part that your audit has played in pointing up these problems.

As you know, the Assistant Secretary for Housing Production and Mortgage Credit-FHA Commissioner and the Assistant Secretary for Renewal and Housing Management now share responsibility in these programs. They and their staffs are devoting much time and attention jointly to the consideration of various recertification and compliance procedures that may be conducive to higher production of such housing, while also giving greater assurance that the housing will be available to occupants at the income level intended by the Congress.

Your findings and recommendations have been, and will continue to be, studied carefully as these efforts continue.

Further and more specific comments upon major topics within the draft report are offered below.

Family Income Data in 221(d)(3) BMIR Projects

In recognition of occupancy problems relating to over-income tenants and in response to HUD's own surveys of BMIR projects,

a new form titled Maximum Income and Occupancy Limits, (FHA Form No. 1729), was developed and distributed beginning in 1966. Its purpose was, and is, to provide current information on the maximum income and occupancy requirements to mortgagors prior to occupancy of the projects. The form also provides for the mortgagor's certification to FHA that it fully understands and assumes full responsibility for compliance with those requirements.

With respect to obtaining and verifying income data from occupants, current procedures as contained in the Regulatory Agreement between HUD and project owners specify the obligation on the owners to provide leases to each tenant which require the tenant to certify his family income and composition and to agree to recertify these items upon request, or every two years.

Then, three months following initial occupancy of a 221(d)(3) below-market-interest-rate project, the directors of our insuring offices are required to make a spot check in sufficient depth to assure that occupancy requirements have been met. A similar spot check by the insuring offices is made after the two-year recertification of tenant eligibility. Over-income tenants may continue to occupy units in a project under this program if they agree to certain rent adjustments that may be required. The adjusted payment would be either 120 percent of the BMIR rent or the BMIR rent plus 25 percent of excess income, whichever is less, except if 25 percent of the excess is less than \$60 a year, no increase is required. In calculating any such adjustment, current community income levels are to be used.

It also should be noted that beginning with January 1969, FHA required that BMIR mortgagors complete a new monthly form (FHA Form No. 1709) which lists data relating to tenants required to pay rents in excess of BMIR rents because of increased incomes. The forms provide for the computation of the excess rents available for credit to residual receipts. The use of this form does not, however, eliminate the need for spot checks of project records.

It is pointed out that our income certification forms already provide for full reporting of all family income, and not just that of the family head as the draft report indicates.

Your draft report, like HUD's own surveys, suggested that some projects were violating occupancy requirements, and as still may be necessary, we will issue strong reminders to project managements of their responsibilities in this regard.

### Assignment of Proper Size Units

The draft report notes that about a fifth of the units checked were assigned to families with less than the appropriate number of persons. However, we permit families to be assigned to maximum size units for health reasons or because of family composition. Also, one-person families can be assigned to one-bedroom units when efficiencies are not available, subject to transfer later.

The report does not provide a breakdown to indicate how many, if any, of those families in larger units than scheduled may have been placed there because of such reasons as mentioned above, or by special waivers from FHA.

The draft comments that project managers and insuring office officials were generally in agreement with HUD's occupancy objectives but placed a priority on achieving and maintaining full occupancy of BMIR projects. After the initial rent-up period, it is not practical to keep units vacant since the projects are dependent on rental income for successful operation. Thus, it is difficult to fault project managements for maintaining occupancy at the highest levels possible, so long as priorities were honored whenever vacancies occurred.

### Adjusted Payments Based on Updated Income Data from Cooperative Housing Members

The draft report states that a number of cooperative housing members in BMIR projects had incomes in excess of BMIR income limits. Income data for cooperative members are obtained as long as a year or more prior to occupancy, largely because of our own 90 percent presale requirement prior to construction start. The draft suggests that we should require project managements to obtain more current income data just prior to occupancy so that members' carrying charges could be adjusted.

There already are provisions to increase payments by over-income cooperators. The Regulatory Agreement provides for increased payments pursuant to a plan previously developed by the mortgagor and approved by FHA for the collection and use of such additional carrying charges. The usual plan provides for recertification every three years unless required earlier by FHA.

With regard to the Section 236 program, provision for increased carrying charges for over-income families is included in the Regulatory Agreement. It is specified in the Occupancy Agreement that incomes will be recertified for this purpose at least every two years from the date of the Occupancy Agreement.

In any event, it would be very difficult to establish viable cooperatives if their memberships were subject to the proposal contained in the draft report. With our 90 percent presale requirement before construction, the only practical time to obtain income data on which original membership is based is prior to the start of construction.

While over-income families could remain members of a Section 236 cooperative under your proposal, the imposition of another income check would add another unknown for prospective members and undoubtedly diminish their willingness to become members and invest their downpayments without knowing that they are in fact to receive the benefits as anticipated. The downpayments, of course, are the working capital on which the cooperatives are dependent.

#### Establishing Minimum Percentage of Income for Rent under BMIR

It is contended in the draft that HUD should not provide subsidized assistance to families under the BMIR program without requiring them to pay a minimum percentage of their income for rent, particularly when the Congress requires it as a qualification for generally lower income families in the rent supplement and Section 235 and Section 236 programs.

Although there have been ample opportunities since the enactment of the BMIR program in 1961, Congress has chosen not to amend the legislation to include such a requirement. As mentioned above, however, upon recertification and the finding that families are over-income, we already have made provisions for their payment of the market rents. Since the 221(d)(3) program is being phased out, your proposal would have impact primarily on existing projects, and these already are subject to the requirement that over-income families pay market rents if they wish to remain as occupants.

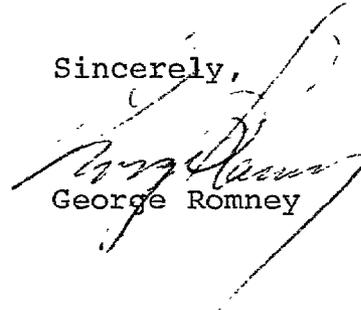
Incidentally, we favor a provision of S. 3649, now under consideration, which would require that families pay 20 percent of the first \$3,500 of income and 25 percent of all income in excess of \$3,500 towards rent and that existing rents be adjusted over a two-year period in accord with the proposed criteria.

In general, I might add that, along with major organization changes now being made in our field structure, we expect improved

training and supervision as further assurance of more effective administration of these programs.

Thank you for your assistance in identifying the problems to be solved.

Sincerely,

A handwritten signature in cursive script, appearing to read "George Romney", is written over the typed name. The signature is fluid and somewhat stylized, with a long horizontal stroke at the end.

George Romney

PRINCIPAL OFFICIALS  
OF THE  
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
RESPONSIBLE FOR THE ADMINISTRATION OF ACTIVITIES  
DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
SECRETARY OF HOUSING AND URBAN DEVELOPMENT (formerly Administrator, Housing and Home Finance Agency):		
Robert C. Weaver	Feb. 1961	Dec. 1968
Robert C. Wood	Jan. 1969	Jan. 1969
George Romney	Jan. 1969	Present
ASSISTANT SECRETARY-COMMISSIONER, FEDERAL HOUSING ADMINISTRATION (formerly Commissioner, Federal Housing Administration) (note a):		
Philip N. Brownstein	Mar. 1963	Feb. 1969
William B. Ross (acting)	Feb. 1969	Sept. 1969
Eugene A. Gulledge	Oct. 1969	Nov. 1969
ASSISTANT SECRETARY FOR HOUSING PRODUCTION AND MORTGAGE CREDIT		
Eugene A. Gulledge	Nov. 1969	Present
ASSISTANT SECRETARY FOR RENEWAL AND HOUSING MANAGEMENT		
Lawrence M. Cox	Nov. 1969	July 1970
Norman V. Watson (acting)	July 1970	Present



PRINCIPAL OFFICIALS  
OF THE  
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
RESPONSIBLE FOR THE ADMINISTRATION OF ACTIVITIES  
DISCUSSED IN THIS REPORT (continued)

<sup>a</sup>In November 1969, the position of Assistant Secretary for Mortgage Credit-Federal Housing Commissioner, was abolished and the functions of the office were assigned to the Assistant Secretary for Housing Production and Mortgage Credit (who also is the Federal Housing Commissioner) and the Assistant Secretary for Renewal and Housing Management.